



Department of the Treasury  
Internal Revenue Service

[REDACTED]  
[REDACTED]  
[REDACTED]  
Date: MAY 25 2000

Employer Identification Number:  
[REDACTED]

Person to Contact:  
[REDACTED]

Telephone Number:  
[REDACTED]

In Reply Refer To:  
[REDACTED]

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and have determined that you do not qualify for exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

The evidence submitted indicates that your organization was formed as a corporation on [REDACTED]. Your current articles of incorporation provide that you are organized "to learn more about automation and discuss its uses and costs; to help people and encourage them to use automation in their social and/or business lives for more efficient living; to promote automation education and the exchange of automation ideas; to hold meetings for the mutual improvement and education of its members and the public." The copy of the articles of incorporation submitted with your original application is incomplete. Although your response to our request for additional information indicates that a complete copy of the articles of incorporation was enclosed, we received only another copy of the State certificate of approval for said articles. The bylaws submitted with your original application contained language indicating that the organization was authorized to issue stock. Although you submitted restated bylaws eliminating such language, we did not also receive evidence that you took our other recommended actions regarding the cessation of such stock activity, nor did we receive an indication that such actions were not necessary as no stock had actually been issued or dividends paid. Nonetheless, your restated bylaws now contain acceptable provisions for the manner in which your organization is to be governed, except that directors who also serve as officers are not prohibited from determining and voting on their own salary. Currently, all directors also serve as officers, however, it does not appear that these individuals receive any compensation from your organization at this time.

According to your newly submitted application, the basic purpose of the organization is to educate your members on the use of "[REDACTED]" software, which is used only by the [REDACTED] industry. This education is provided in the form of seminars. In addition, [REDACTED] software users discuss methods and strategies in using and improving the [REDACTED] software. This information is then passed on to [REDACTED] programmers to make the [REDACTED] software more efficient. You do not sell, nor is it your intent to promote the sale of, [REDACTED] software. You reiterate that your "sole purpose is to educate individuals who have already purchased the product for use in the [REDACTED] industry."

[REDACTED]



According to the attachment included with your newly submitted application, [REDACTED] "is a leading vendor of automation for [REDACTED] industry ..." Their latest release is [REDACTED] management system running on the [REDACTED]

Per page 3 of Form 1024, all of the organization's members are "[REDACTED]s or [REDACTED]s in the [REDACTED] who have a desire to learn how to effectively use [REDACTED] software in their industry."

You receive [REDACTED]% of your income from membership fees, and [REDACTED]% of your income from seminar fees.

Section 501(c)(6) of the Internal Revenue Code provides for exemption from Federal income tax for organizations which are business leagues, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Regulations defines a business league as an association of persons (the term "persons" includes legal entities such as trusts and corporations) having a common business interest, whose purpose is to promote the common business interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities are directed to the improvement of business conditions of one or more lines of business rather than the performance of particular services for individual persons.

Section 1.501(c)(3)-1(d)(5)(ii) of the Regulations states that conducting research for purposes of the design or construction of equipment is incident to commercial operations.

Revenue Ruling 56-65, 1965-1 C.B. 199, holds that furnishing particular information and specialized individual service to members through publications and other means to effect economies in the operation of their individual business constitutes the performance of particular services for individual persons.

Revenue Ruling 74-147, 1974-1 C.B. 136, holds that an organization which directs its activities to members whose common business interest concerns the use of computers made by diverse and competing manufacturers qualifies for exemption under IRC section 501(c)(6).

Revenue Ruling 83-164, 1983-2 C.B. 95, holds that an organization whose members represent those who own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under IRC section 501(c)(6).

Although the members of both the organization described in Rev. Rul. 74-147 and the organization described in Rev. Rul. 83-164 have a common business interest concerning the use of computers, the organization in Rev. Rul. 74-147 directs its activities to users of computers made by diverse and competing manufacturers, while the organization in Rev. Rul. 83-164 directs its activities to users of computers made by one manufacturer.



Although you do not sell, or intend to promote the sale of, [REDACTED], the existence of an organization dedicated to providing educational services solely for users of a particular product is an incentive towards purchasing the product which cannot be disregarded as merely incidental.

By directing your activities only to users of [REDACTED], you are directing your activities towards the improvement of business conditions in only those segments of the [REDACTED] to which your members belong. The fact that [REDACTED] is used only by the [REDACTED] industry, even if used by the entire industry, is not only irrelevant, but in direct contrast to section 501(c)(6) purposes. Because you limit your activities to the users of [REDACTED] software, you help to provide a competitive advantage to [REDACTED] and to its customers at the expense of [REDACTED] competitors and those in the [REDACTED] industry who may use, or wish to use, other brands of software. Such suppression of a competitive environment serves, ultimately, as an impediment to the industry's progress.

In addition, because your educational activities are limited to users of [REDACTED], there is no discernible distinction between your services and the educational after-sales services that businesses conducted for profit ordinarily offer their customers. This not only perpetuates [REDACTED] competitive advantage by relieving them of this burden, but in so doing may itself be seen as operating a business ordinarily conducted for profit as described, and prohibited, in Section 1.501(c)(6)-1 of the Regs. This is true regardless of whether a profit is generated, or who the ultimate recipient of any profit (whether direct or indirect) may be.

Further, the passage of information from your members to [REDACTED] programmers may be considered a form of research for the purpose of designing software, an activity which is incident to the operation of a business ordinarily conducted for profit as described in Section 1.501(c)(3)-1(d)(5)(ii) of the Regs., and prohibited under Section 1.501(c)(6)-1 of the Regs.

Finally, because membership in your organization is limited to users of a particular product, the provision of educational information on this product is considered the performance of particular services for individuals as described in Rev. Rul. 56-65.

Thus, the organization's activities are not considered to be directed towards the improvement of business conditions in one or more lines of business within the meaning of section 1.501(c)(6)-1 of the Regs., but rather towards the improvement of business conditions for [REDACTED] and the individual users of its product.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Code. In accordance with this determination, you will continue to be recognized as an organization which is subject to Federal income tax.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position.

If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax information authorization with us.

Appeals submitted which do not contain all documentation required by Publication 892 will be returned for completion.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

*Steven T. Miller*

Steven T. Miller  
Director, Exempt Organizations

Enclosure: Publication 892

cc: [REDACTED]